

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1114-01  
Bill No.: HB 500  
Subject: Taxation and Revenue - Sales and Use; Revenue Department  
Type: Original  
Date: April 2, 2013

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Bill Summary: This proposal would require the Director of the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement and would change the laws regarding taxation.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
General Revenue	\$0	More than \$100,000 to Unknown	More than \$100,000 to Unknown
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>More than \$100,000 to Unknown</b>	<b>More than \$100,000 to Unknown</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	\$0	More than \$100,000	More than \$100,000
Parks, and Soil and Water	\$0	More than \$100,000	More than \$100,000
School District Trust	\$0	More than \$100,000	More than \$100,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	More than \$100,000	More than \$100,000

### FISCAL ANALYSIS

#### ASSUMPTION

#### Section 32.070, etc., RSMo. Streamlined Sales Tax Program:

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Conservation**, the **Department of Natural Resources**, and the **Department of Transportation** deferred to the Department of Revenue for an estimate of the fiscal impact from these provisions.

Officials from the **City of St. Louis** assume this proposal would have minimal fiscal impact on their organization.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement (SSTA). The proposal would become effective Jan. 1, 2015. Two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce provide an estimated range of \$108 million (Eisanach & Litan, Feb. 2010) and \$210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

BAP officials noted that remote sellers would be able to remit sales tax under this agreement, and estimated this proposal would generate \$10 million in total state revenues annually, of which \$7 million would be due to the General Revenue Fund. However, revenues may be less than this amount during the first year, depending on the administrative issue involved in becoming a full member state of the SSTA.

**Oversight** has reviewed the studies cited by BAP and we noted that there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were \$26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that \$8.7 billion was uncollected for the United States. If 1.8% of the \$8.7 billion was due the state of Missouri, the additional revenue would amount to \$156.6 million. The Eisenach and Litan report suggests only \$3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be \$70.2 million.

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

ASSUMPTION (continued)

**Oversight** was recently provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional \$13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary; and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

**Oversight** assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

The \$13.7 million in additional revenue would be due to the following state funds, and **Oversight** has also provided an estimate of additional revenues to local governments.

Entity	Sales Tax Rate	Sales Tax Amount
General Revenue Fund	3.000%	\$9,738,000
School District Trust Fund	1.000%	\$3,246,000
Conservation Commission Fund	0.125%	\$324,600
Parks, and Soils Fund	0.100%	\$405,800
Local Governments *	Average 3.800%	\$12,334,900
Total	NA	\$26,049,300

\* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

ASSUMPTION (continued)

**Oversight** notes this proposal would make changes in several current statutory sales tax exemptions for the state and for local governments; taken individually, these changes in current exemptions could have a fiscal impact on various state funds and on local governments. As a part of the Streamlined Sales Tax program, however, Oversight does not consider the impact of individual changes to exemption provisions to be significant. For fiscal note purposes, **Oversight** will indicate additional revenue in excess of \$100,000 per year for those state funds that receive sales tax revenues, and for local governments.

Officials from the **Department of Revenue (DOR)** assume this proposal would create the Streamlined Sales and Use Tax Agreement Act. The Director of the Department of Revenue would enter into the Streamlined Sales and Use Tax Agreement (SSUTA) with one or more states to simplify and modernize sales and use tax administration.

DOR officials listed the major provisions of this proposal and provided their analysis of the impact on their organization; a summary of the impact on DOR is provided in the administrative impact section below.

Fiscal impact

DOR officials assume that once fully implemented, the Streamlined Sales and Use Tax Agreement would increase sales tax collections and total state revenue by approximately \$5 million in its first year and \$10 million each year thereafter.

IT impact

DOR officials assume that Department and ITSD-DOR would need to make programming changes to various tax systems, and provided an estimate of the IT cost to implement this proposal of \$109,066 based on 4,032 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

Administrative impact

The DOR response included two additional Revenue Processing Technicians (Range 10, Step L) staff for excise tax related to examining refund claims which would need to be reviewed individually. In addition, the response indicated that the Department did not envision an FTE impact for the Sales Tax area, but rule writing would create a significant impact for which DOR would need additional managerial assistance, and included one additional Management Analyst Specialist I (Range 23, Step Q).

The DOR request, including three additional staff and related benefits, equipment, and expense totaled \$136,863 for FY 2014, \$145,786 for FY 2015, and \$147,293 for FY 2016.

**Oversight** assumes that implementing the Streamlined Sales Tax program would be accomplished as part of an ongoing DOR update process and for fiscal note purposes only, will indicate a cost in excess of \$100,000 for FY 2015 and FY 2016. That fiscal impact is intended to include the DOR cost for updating procedures, any additional staffing that would be needed, and the programming that would be required for changes to various DOR systems. Oversight assumes that additional revenues would exceed additional costs by more than \$100,000 per year for the General Revenue Fund.

Section 32.086, RSMo. - Collection charge:

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted Section 32.086 would create a 1% collection fee for local sales taxes collected by DOR. This fee would be deposited in the General Revenue Fund to offset the Department of Revenue's costs. This would increase General and Total State Revenues by an unknown amount.

**Oversight** notes that current provisions allow the one percent collection charge for most but not all local sales taxes collected by the Department of Revenue and will include an unknown amount of additional revenue for the General Revenue Fund for additional sales tax collection charges. Oversight will indicate a corresponding unknown reduction in revenue for local governments; however, Oversight notes that local governments would still be expected to receive 99% of the additional revenue from implementation of the Streamlined Sales Tax and assumes the net impact to local governments would still be greater than \$100,000 in additional revenue per year.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE FUND</b>			
<u>Additional revenue - DOR</u>			
Streamlined Sales Tax Section 32.070, Etc.	\$0	More than \$100,000	More than \$100,000
<u>Additional revenue - DOR</u>			
1% collection fee Section 32.086	\$0	Unknown	Unknown
<u>Cost - DOR</u>			
Streamlined Sales Tax Section 32.070, etc.	\$0	(More than \$100,000)	(More than \$100,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>More than \$100,000 to Unknown</u></b>	<b><u>More than \$100,000 to Unknown</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Additional revenue - DOR</u>			
Streamlined Sales Tax Section 32.070, Etc.	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>\$0</u></b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>



FISCAL IMPACT - State Government  
 (continued)

FY 2014  
 (10 Mo.)

FY 2015

FY 2016

**PARKS, AND SOIL AND WATER  
 FUND**

Additional revenue - DOR  
 Streamlined Sales Tax  
 Section 32.070, Etc.

\$0

More than  
\$100,000

More than  
\$100,000

**ESTIMATED NET EFFECT ON  
 PARKS, AND SOIL AND WATER  
 FUND**

\$0

**More than**  
**\$100,000**

**More than**  
**\$100,000**

**SCHOOL DISTRICT TRUST FUND**

Additional revenue - DOR  
 Streamlined Sales Tax  
 Section 32.070, Etc.

\$0

More than  
\$100,000

More than  
\$100,000

**ESTIMATED NET EFFECT ON  
 SCHOOL DISTRICT TRUST FUND**

\$0

**More than**  
**\$100,000**

**More than**  
**\$100,000**

FISCAL IMPACT - Local Government

FY 2014  
 (10 Mo.)

FY 2015

FY 2016

**LOCAL GOVERNMENTS**

Additional revenue - Local governments  
 Streamlined Sales Tax  
 Section 32.070, Etc.

\$0

More than  
 \$100,000

More than  
 \$100,000

Revenue reduction - Local governments  
 1% collection fee  
 Section 32.086

\$0

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON  
 LOCAL GOVERNMENTS**

\$0

**More than**  
**\$100,000**

**More than**  
**\$100,000**

SS:LR:OD

### FISCAL IMPACT - Small Business

Small businesses may be expected to collect additional sales taxes, perhaps due other states, as a result of this proposal.

### FISCAL DESCRIPTION

This proposal would require the Director of the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement and would change the laws regarding taxation.

The proposed legislation would require the Director of the Department of Revenue to enter into the multistate Streamlined Sales and Use Tax Agreement to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and types of commerce.

- \* The proposal would impose notification requirements on local governments for boundary changes and tax rate changes.
- \* The Department of Revenue would create the necessary rules to implement the compliance provisions of the agreement.
- \* The state would be represented as a member of the agreement by three delegates including a person appointed by the Governor, a member of the General Assembly appointed by mutual consent of the President Pro Tem of the Senate and the Speaker of the House of Representatives, and the Director of the Department of Revenue or his or her designee. The delegates would make an annual report by January 15 on the status of the agreement.
- \* The Department of Revenue would retain 1% of the amount of any local sales or use taxes collected by the department for the cost of collection.
- \* All state and local sales taxes would be required to have the same base, which means that exemptions at the state and local level would be identical.
- \* Definitions would be provided for taxable and nontaxable sales and for the taxability of bundled transactions involving both taxable and nontaxable goods or services.
- \* Uniform sourcing rules would be applied to determine the applicable tax rates for certain transactions.

FISCAL DESCRIPTION (continued)


- \* On-line registration for out-of-state sellers would be simplified and no bond would be required.
- \* The Department of Revenue could require any seller to electronically file and remit sales and use taxes, and would require the department to offer out-of-state sellers uniform, simplified electronic filing.
- \* The Department of Revenue would be required to provide electronic databases for tax jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services.
- \* The proposal would authorize an amnesty for certain out-of-state sellers with uncollected or unpaid sales or use tax if the seller was not registered in Missouri in the prior 12-month period before the implementation of streamlined agreement in Missouri.
- \* The proposal would provide a monetary allowance under the automated collection system, beginning July 1, 2014, up to 2% of the amount of remittance that sellers and certified service providers are allowed for collecting and remitting the state and local sales taxes. Currently, sellers are allowed to keep 2% for collecting and timely remitting the tax. A seller could not simultaneously receive the proposed monetary allowance and the current 2% timely filing deduction.
- \* The proposal would eliminate caps or thresholds on the collection of sales or use taxes.

The provisions of the Streamlined Sales and Use Tax Agreement Act would become effective January 1, 2015.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration - Division of Budget and Planning  
Department of Conservation  
Department of Revenue  
Department of Natural Resources  
Department of Transportation  
City of St. Louis



Ross Strobe  
Acting Director  
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